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High-end Homes May Face Lower Demand

High-end home brokers see signs that East Coast slowdown could move to Los Angeles.

By Helen Zhao

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Diving In: Sam Real at a Bel Air mansion that will feature three pools. Photo by Thomas Wasper

Developers and brokers of high-end homes in Los Angeles are seeing cause for concern in East Coast luxury markets such as New York and Miami, where prices have softened and sales volume has waned.

The market for homes priced at less than $3 million remains robust, agents said, as inventory is still tight. But the pool of buyers is limited in the high-end market for homes priced above $10 million, and as developers have rushed into the market there is concern that Los Angeles could be on the cusp of a glut.

"I've never seen more construction in Los Angeles than in the last two or three years," said Greg Harris, an agent at Compass brokerage in Beverly Hills. "There's more high-end inventory than we've ever seen."

Harris cited Bel Air as an example of this development trend.

"Up until a couple years ago, you would see new construction everywhere but Bel Air," he said. "But now you see it in Bel Air, which was typically an old-money neighborhood that didn't change hands much."

Agent Sam Real of Nest Seekers in Beverly Hills said there are more than 40 homes priced between $15 million and $35 million under construction in Beverly Hills and in the Hollywood Hills' Bird Streets, which will gradually hit the market around the same time.

"You are starting to see abundance of inventory in a price point where your buyers pool is just not as large," he said.

A number of homes priced between $10 million and $20 million in Beverly Hills have already experienced 5 percent to 10 percent price drops this year, according to real estate data firm Zillow.

Those price chops could be an indication that sellers were pricing their homes aggressively in order to test the market and realized it wasn't as hot as they had anticipated, said Oscar Wei, senior economist at the California Association of Realtors.

Sellers might also be adjusting their prices because buyers are realizing they can't afford as expensive a home in light of rising interest rates. The 30-year fixed-rate mortgage averaged 4.23 percent for the week ended March 23, according to Freddie Mac. That's up from 3.71 percent a year ago.

It was also suggested that political and economic uncertainty could be a contributing factor. Some potential buyers might be concerned that dramatic political or policy changes could devalue their investment.

"There's a tremendous amount of uncertainty for tax policy, health care policy, fiscal policy – these are all big pieces of the American economy," said Rodney Ramcharan, director of research at USC's Lusk Center for Real Estate. "There's also the potential risk that the Trump administration could inadvertently stumble into some kind of global conflict."

Managing expectations

Demand for homes priced at $3 million and above has been growing at a much slower rate than supply since 2014, according to CAR. Year-over-year sales in that price range increased by 38 percent in 2014. That slipped in 2015, when sales improved by 17 percent, and decreased even further in 2016, when the year-over-year increase was just 3 percent. About 4 percent of listed homes, or 470 units, were priced at or above $3 million in Los Angeles County in February.

At the same time, the number of homes priced above $3 million coming on the market has also declined, though by not nearly as much. Supply, measured by active listings on the MLS, saw a year-over-year increase of 28.5 percent in 2014. It grew by nearly 34 percent the following year and dropped to about 18 percent last year.

The pace of price increases is expected to come down as a result, Wei said.

"We think this year we will see a high single-digit price appreciation, but next year we will see price growth softening up a bit further to 5 percent or below," he said.

Nest Seekers' Real is telling some of his clients not to buy for the time being.

"I am advising them to hold off from purchasing development opportunities," he said. "I think land has become extremely overpriced."

The lack of land is a product of developers grabbing at development opportunities the last few years.

"In late 2011, early 2012, some of these developers got in early and picked up properties at very low prices and put them on the market at $2,000, $3,000 a foot," Real said. "And they were selling like hotcakes. All of a sudden everyone and their mother thinks they can be the next big developer."

Justifying costs

The competition is forcing some developers to go the extra mile in order to stand out. One of Real's clients, developer and physician Aaron Coppelson, is constructing two homes in the Bird Streets, among some 20 homes under construction in a one-mile radius.

"What I like to do is mitigate my risk by having a unique property," Coppelson said.

The home he is building on Marcheeta Place has three pools and is fully automated so that a room will recognize a person who walks in and adjust the lighting, temperature, and music based on preset preferences and time of day. He expects the property to hit the market in three months and be priced at more than $20 million.

His other development, on Swallow Drive, is projected to be put on the block for more than $30 million by the end of the year.

Coppelson said he purchased both properties two years ago for about $5 million each. While a few of his neighbors' homes sit on the market without activity, the developer is so confident in his strategy that he has instructed Real to continue shopping for him in the Hollywood Hills.

Meanwhile, wife and husband team Lori Dennis and Roy Yerushalmi of West L.A. interior design and general contracting firm SoCal Contractor said they are preparing to see business slow in the next couple of years.

"If it cracks on the high end, you're going to see it trickle down in the $2 million to $5 million range as well," Dennis said.

SoCal Contractor deals mostly in that price range, where she said business is still going strong.

Dennis and Yerushalmi, who said they were burned in the housing market crash in 2008, have saved up and are ready to buy if prices drop.

"It's a double-edged sword for us," Dennis said. "If it crashes, then we can buy, but we won't have the income that we're used to. We're ready for anything. It's cyclical and it will always bounce back. It is L.A. after all."

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Reader Poll

READER POLL: How has your exercise routine changed since the Covid-19 pandemic began?

- I've been using my home gym
- I bought exercise equipment
- I'm using outdoor gyms/exercise classes
- I've been taking walks and hikes
- I've been exercising less than before the pandemic

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